

15 SEP 1975

MEMORANDUM FOR: Acting Director of Logistics
SUBJECT : Procurement of Common-Use Items
REFERENCE : Ltr dtd March 24, 1975, to Heads of Civil Departments and
Agencies fr Comptroller General of the United States,
Subj: Possible Savings in Procurement of Goods and
Services

1. By means of a "Report to the Congress" dated 31 December 1974, the General Accounting Office (GAO) of the Comptroller General noted that:

- a. General Services Administration (GSA), with minor exceptions, is responsible, under law, for procurement and supply of goods and services to federal agencies.
- b. During FY 1973, GSA did, in fact, provide goods and services valued at \$1.7 billion to Executive Branch agencies. During this same period, however, agencies which should have procured most, if not all, of their requirements from GSA spent an additional \$1.4 billion with commercial sources for identical or similar goods and services available from GSA sources.

c. Average savings realized through use of GSA sources is figured to be 23 percent as compared to commercial prices.

2. By coincidence, an independent study prepared by Logistics Services Division (LSD) during March and April 1975 addressed the same subject, i.e., GSA versus commercial sources, but with some rather different conclusions. Based on a selected, but representative, list of 22 fast moving standard stock items, it appears that we could have saved \$71,000 last fiscal year had we purchased our requirements for those items in the commercial market (attachment A).

3. We have reviewed the entire subject in an effort to reconcile the apparent differences noted above and have established some key factors which appear to preclude any general Agency policy permitting commercial acquisition of common-use supplies normally obtained from GSA. The governing Federal Regulations are very explicit as to our responsibilities in this respect. For example, paragraph 101-25.101-5, chapter 101, of the Federal Property Management Regulations states:

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"The following criteria shall govern in determining whether an item should be supplied through local purchase:

- (a) Urgency of need requires local purchase to assure prompt deliveries;
- (b) The items are perishable or subject to rapid deterioration which will not permit delay incident to shipment from distant points;
- (c) The local purchase is within applicable limitation established by the Agency head; or
- (d) Local purchase will produce the greatest economy to the Government."

4. Heretofore, we have procured commercially only those items falling within the "urgency of need" category and the LSD proposal opens for discussion the possibility of greater economy through local purchase which is in direct contravention to the GAO findings and recommendations. Here again the controlling Federal Regulation is both explicit and limiting, permitting such action only when prior authority has been obtained from the Commissioner, Federal Supply Service, GSA. As can be seen (attachment B), such authority will not be granted easily, a fact confirmed by the Chief, Supply Division (SD).

5. On balance, the Office of Logistics is complying with both the letter and the intent of existing Federal Regulations. Following are summaries of how we obtain common-use items.

- a. Interdepartmental Support Branch, SD - The bulk of items procured (55 percent) come from Defense Supply Agency and not GSA. The balance of those items procured come from established GSA sources with the exception of rather insignificant demands on such other Government sources as the Departments of Army, Air Force, and Navy.
- b. General Procurement Branch, Procurement Division - Although 67 percent of this unit's workload reflects commercial procurement, this source is only used when requirements cannot be obtained through existing Federal Schedule contracts or other Government sources. Commercial acquisitions fall logically within the emergency concept.
- c. Small Purchases Branch [redacted] SD - Most of this unit's acquisitions come from GSA controlled sources. Those items procured from commercial firms all fall within the emergency category.

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d. Building Services Branch (BSB), LSD - As a general rule, BSB either requisitions from CD or obtains items from GSA. Material is obtained from commercial sources only when not available, or some times when back ordered from GSA. It must be noted that lengthy GSA back orders are not uncommon. For example, in August an order was placed with GSA for ordinary staples. GSA notified us that staples would not be available before April 1976. Another typical item is dictionaries ordered last May but not to be delivered until April 1976. Quantities of both of these items might have to be procured commercially even though they are included in the list of things we must buy from GSA.

6. One interesting fact developed during the course of this review concerns the almost cyclic variation of prices for specific commodities. It is evident that most of the time, and for most items, GSA is a less costly source of the material it provides. This is true even for the 22 specific items listed in attachment A even though at the time commercial quotations were obtained they were less than the GSA quoted prices. The probable cause of this phenomenon is the necessity for GSA to survey the market and to insure adequate supplies of those items they believe may be entering a shortage phase-- even if it is necessary to pay premium prices to insure adequate inventories. The frequent, and obvious, end result of this approach, of course, is a situation in which a shortage or drastic price increase doesn't occur and GSA is caught with a high-price commodity which it must sell at a price higher than the current market price. This factor is discussed in the GAO report. It follows logically then that at any given time there will be some items stocked by GSA at a higher cost than the current market price. This is not adequate justification to procure commercially, however, as the next GSA buy will reflect the lower prices dictated by the supply and demand interplay involved. This fact is accepted by LSD.

7. To summarize:

- a. The bulk of our procurements of common-use items are made through proper channels within the intent of the governing Federal Regulations.
- b. There really is no overall saving inherent in commercial procurement of even selected items as GSA will normally provide the financial benefits of bulk buying at the best possible price.
- c. There will continue to be limited buys in the commercial market for those common-use items not immediately available through GSA.

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d. In any event, it would be extremely difficult, if not impossible, to obtain the necessary waiver to permit the Agency to have free access to the commercial market.

8. Based on the totality of the very complicated picture outlined above, it is our recommendation that we continue on with our current approach to procurement of common-use items. This approach has met the dual tests of time and performance throughout the Agency.



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Chief, Plans and Programs Staff, OL

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cc: C/LSD/OL, w/att B
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